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Subj: Written Statement on Implementation of Sec. 9006 of the Farm Security and Rural Investment Act of 2002

We are pleased to have the opportunity to submit our comments on implementation of Section 9006 of the Farm Security and Rural Investment Act of 2002. The Environmental and Energy Study Institute (EESI) is a non-profit organization founded in 1984 by a bipartisan group of Members of Congress. EESI's mission is the advancement of public policy options that will sustain people, the environment, and natural resources. We see renewable energy development couple with energy efficiency improvements as key to addressing our nation's growing energy demand in an environmentally sustainable manner.

EESI was involved in conceptualization of the energy title from its earliest stages. We worked closely with Congressional staff throughout the reauthorization of the Farm Bill, and helped facilitate communication among staff and key agricultural, energy, and environmental stakeholders. Passage of the energy title was an incredible victory for renewable energy, energy efficiency, and the nation's farmers.

Section 9006 is a cornerstone of the energy title, providing $23 million a year over the life of the 2002 Farm Bill for the deployment of renewable energy and energy efficiency technologies on America's farms. Sec. 9006 will help farmers save money by lowering their energy costs through efficiency improvements, and by enabling them to produce some of their own on-farm power. In addition, Sec. 9006 will provide farmers the seed money needed to develop and market their renewable energy resources. Indeed, energy could be the new "cash crop" for the 21st century.

Following is EESI's response to specific questions raised in the public meeting notice:

What projects should be eligible for funding? Should certain types of projects receive priority for funding? Should preference be given to new, innovative technologies or proven technologies?

The Rural Business-Cooperative Service has a unique opportunity to advance the agency's mission to "enhance the quality of life for rural Americans by providing leadership in building competitive businesses including sustainable cooperatives that can prosper in the global marketplace" through renewable energy/energy efficiency development. **In reviewing appropriate projects to fund RBS's primary goal must be to select projects with the best chance of success.** Sec. 9006 is not intended as a research program, but rather a technology deployment program. The Agricultural Research Service and the Department of Energy are best able to conduct basic research to develop new renewable energy technologies and processes. RBS should focus on selecting the most promising projects/technologies that are commercialized or are ready for commercial application.

We would caution RBS to avoid the temptation of funding only technologies with which it has a track record. RBS should endeavor to coordinate Sec. 9006 funding with other USDA programs (e.g. Value-Added grants, EQIP, CCC Bioenergy Program, etc.) and avoid overlap as much as possible. Although RBS has a great deal of experience with corn-ethanol projects, it has less experience with wind, solar, geothermal, biopower, and efficiency technologies. Each of these technology categories should be represented in RBS' award selections, and **no technology category should receive greater than 50 percent of total available funding.** RBS should strive to support a diversity of promising technologies, business models, processes, and feedstocks (most especially non-food feedstocks).

What type of financial assistance is most in need (i.e., grants, direct loans, or loan guarantees)?

We believe a combination of all these incentives is appropriate. Many projects will undoubtedly require a grant to make private financing feasible. This is particularly true of projects that are among the first of their kind, as private financiers are often reluctant to fund such endeavors. Loans and loan guarantees can be used in combination with grants, or with state/local funds, to increase a projects' attractiveness to private financiers, while preserving funds for future projects. **To maximize the effectiveness of Sec. 9006 funds, projects should be evaluated on the basis of the amount of potential financial backing they would be able to leverage if awarded federal funds.** We are confident that RBS officials will find an appropriate balance of these incentives.

What other factors, if any, should the Department consider in determining the amount of grant or loan? Should certain types of projects or geographic areas be targeted and given preference for financial assistance?

We cannot stress enough the importance of achieving geographic diversity in funding projects. It would be a mistake to apply a one-size-fits-all approach for administering funds that does not take into account the unique characteristics each region of the nation has to offer. Every state has a different renewable resource base, unique state programs, and energy infrastructure. Providing flexibility that takes into account these unique characteristics will be key to ensuring success of the program, and the growth of projects across the nation.

What are various sources of program matching funds (i.e., other Federal, State, local, or private programs)?

Many state and local governments have established innovative programs designed to promote renewable energy and energy efficiency projects. Fourteen states have set up clean energy funds paid for by a system benefits charge on electricity customers. Many of these funds have issued grants and loans to promising renewable energy and energy efficiency projects. Currently CA, CT, DE, IL, MA, MT, NJ, NM, NY, OH, OR, PA, RI, and WI have clean energy funds in place. Many states have expressed an interest in agriculture-based renewable energy. For example, the West Penn Power Sustainable Energy Fund, one of five regional PA clean energy funds, hosted an Agri-energy conference in November 2001 and has since made agriculture one of its priority areas funding areas.

Some investor-owned and public utilities also offer renewable energy/energy efficiency incentives, often to meet state established renewable portfolio standards. Many utilities and/or state energy offices have sponsored farm energy audits to help farmers determine where the greatest efficiency gains can be made. Still other states have funded methane digester pilot projects. The National Association of State Energy Officials has set up an Agriculture/Rural Development Taskforce and is compiling a list of state sponsored bioenergy programs. A draft of this list is available at: http://www.naseo.org/tforces/agriculture/default.htm.

While we understand the monumental task RBS faces in implementing this program, **we urge you to move forward with final regulations for implementing Sec. 9006 as soon as possible.** EESI has received several inquiries from state agencies and policymakers regarding the status of the implementation of Sec. 9006. In fact, the chairman of Agriculture Committee of the Oregon House of Representatives has asked us to express his hope that the Sec. 9006 program will be implemented in an expeditious manner, as the Oregon legislature is in session only once every two years. Like Oregon, many states legislatures meet for only limited sessions, which underscores the need to move forward with federal matching funds as soon as possible, so the states may respond with complementary legislative action. Finally, a shared federal/state investment in ag-energy projects will also yield significant clean air and water benefits, as well as greenhouse gas reduction.

We would also encourage USDA to include funding for Sec. 9005 in its budget request. Sec. 9005 would provide funding for energy efficiency audits and renewable energy assessments. Completion of these audits would be tied to eligibility for Sec. 9006 funds, as outlined in the legislation. These audits and assessments are an essential first step in identifying economically viable projects.